

# KENTUCKY

## TEACHERS' RETIREMENT SYSTEM

RETIRED MEMBER  
EDITION



July/August  
2009

### KTRS Investment Philosophy Continues to Serve the System Well

**A**s news stories have reminded us daily for many months, the global financial system has just experienced its greatest period of stress since the 1930s. The damage to the financial system—and consequently to the real economy—was caused by an unsustainable accumulation of risk in financial practices over several years leading up to the downturn. Though we are confident of the long-term viability of the economy, we are not out of the woods yet.

While returns have been unavoidably negative in the recent economic downturn, the System's portfolio has been exceptionally resilient as a result of KTRS's investment philosophy that focuses on fundamental value and risk control. KTRS's investment performance ranked in the top 9%

for the year ended March 31, 2009 compared to 58 other state-wide pension plans in the nation and in the top 31% over the past three years (Source: Pension

Fund Data  
Exchange).

**KTRS's  
investment  
performance ranked  
in the top 9% for  
the year ended  
March 31, 2009 ...**

While comparisons with other public funds can provide insights, the only goal of our investment program is to

ensure our ability to provide promised benefits to our members. KTRS's investment philosophy is determined by its current and long-term obligations to its members.

This philosophy has proven sound even in the most stressful times for the financial markets in decades.

*continued on page 2  
KTRS Investment Philosophy ...*

### Members Elect Trustees to KTRS Board

The election for the positions on the KTRS Board of Trustees due to expiring terms for the retired teacher trustee and the active trustee positions was conducted during May 2009. Interim Chief State School Officer Elaine Farris certified the results of the election to the KTRS Board of Trustees.

**BARBARA G. STERRETT** the incumbent, was re-elected to a four-year term as retired teacher trustee. Ms. Sterrett represented active members on the Board from 1990 until her retirement in 2003. In



*continued on page 2-Sterrett...*

**DR. JOSEPH A. (JAY) MORGAN**, the incumbent from Murray, was re-elected to a four-year term on the Board as an active teacher trustee. Dr. Morgan currently serves as the Vice Chair for the KTRS Board of Trustees



and as Chair for the KTRS

*continued on page 2-Morgan...*

#### **\*\* Inside This Issue \*\***

KTRS Investment Philosophy Continues to Serve the System Well .....	1
Members Elect Trustees to KTRS Board .....	1
KTRS Board of Trustees Chair & Vice Chair Elected .....	2
Changes to the KTRS Investment Program .....	3
IRS Modifies Withholding Table for Second Time-Will Impact July Benefit Checks ...	4
Reminder to Re-employed Retirees .....	4
WHCRA Annual Notice .....	4
Minimum Distribution Requirements .....	5
Members Should Designate a Beneficiary for their KTRS Account .....	5
KTRS Retiree Analysis .....	5
MEHP Open Enrollment Nov 51 - Dec 31, 2009 .....	6

---

***KTRS Investment Philosophy  
continued from page 1 ...***

As we focus on the long-term, KTRS continues a multi-year process of diversifying its portfolio that began earlier this decade. Assets in the marketplace that were excessively valued a few years ago are now available at much lower valuations, providing exceptional opportunities to continue this diversification. However, there are challenges to this process. The redirecting of retirement contributions by the Commonwealth that should be deposited into the pension fund (but are instead used to pay for current medical insurance costs) makes the planned diversification less efficient and more difficult. Securing adequate funding for retiree medical benefits will help maintain a sound actuarial foundation for the System.

The Board of Trustees has moved to broaden the investment expertise available to the System as it moves to continue the ongoing diversification and take advantage of opportunities in the current environment. Ennis Knupp, a nationally recognized investment consulting firm, has been awarded a contract to serve as the System's General Investment Consultant for the coming fiscal year. In addition, two nationally recognized and highly respected investment experts, Mr. Bevis Longstreth and Mr. George Philip, have been appointed to the KTRS Investment Committee.

### **KTRS Board of Trustees Chair & Vice Chair Elected**

**BARBARA G. STERRETT**, of Lexington, was re-elected chair of the Board of Trustees for the 2009-2010 fiscal year at the Board of Trustees meeting held June 15, 2009. Mrs. Sterrett represented active members on the Board from 1990 until her retirement in 2003. In May 2005, she was elected to represent retired members. She served as the Board's vice-chair during fiscal year 2007-2008.

**DR. JOSEPH A. (JAY) MORGAN**, of Murray, was re-elected vice-chair for the 2009-2010 fiscal year at the Board of Trustees meeting held June 15, 2009. Dr. Morgan has represented active members on the Board since July 2006.

### ***Sterrett continued from page 1 ...***

May 2005, she was elected to represent retired members. She served as the Board's vice-chair during fiscal year 2007-2008 and she currently serves as Chair of the Board. She earned a Bachelor's Degree in Mathematics from Edinboro University and holds a Rank I with a Master's Degree and a Specialist Diploma from the University of Pittsburgh. She taught mathematics for 30 years at Lafayette High School in Lexington. As a teacher, she served as president and treasurer of the Fayette County Education Association. In addition to her work with the KTRS Board, Ms. Sterrett substitutes in the Fayette County Public Schools, is active with the Lexington League of Women Voters and is a member of Kentucky Education Association-Retired, Kentucky Retired Teachers Association and Alpha Delta Kappa, an educational sorority.

Ms. Sterrett's current term of office began July 1, 2009 and will end June 30, 2013.

---

### ***Morgan continued from page 1 ...***

Legislative & Scholarship Committees. He also serves on the Governance & Audit, Personnel, and Investment Committees of the KTRS Board. Dr. Morgan is a professor at Murray State University where he received his Bachelor's Degree in Agriculture Business and a Master's Degree in Education. He earned his Ph.D. in Agricultural Education from Oklahoma State University. Previously Dr. Morgan was CEO of the Wholesale & Retail Educational College Book Company, taught high school agriculture classes, and studied and traveled extensively abroad. His community service includes Murray City Council member, past board chair of United Way of Calloway County, recipient of the "Outstanding Volunteer of Kentucky" award, past president of the board of Murray-Calloway County Chamber of Commerce, Rotary Club member, 2002 Murray-Calloway County Citizen of the Year, member of KVATA, and a member of the board at Heritage Bank. Dr. Morgan has represented active members on the Board since July 2006.

Dr. Morgan's current term of office began July 1, 2009 and will end June 30, 2013.

---

## Changes to the KTRS Investment Program

---

On December 15, 2008, the Board of Trustees of the Kentucky Teachers' Retirement System (KTRS) voted to adopt investment recommendations made by Gov. Steve Beshear's bipartisan Public Pension Working Group. These recommendations originated from a coalition of groups including the Kentucky Education Association, the Kentucky Education Association-Retired, the Kentucky Retired Teachers Association, the Jefferson County Teachers Association, and 3KT (comprised of the Kentucky School Boards Association, the Kentucky Association of School Administrators, and the Kentucky Association of School Superintendents). The Public Pension Working Group was chaired by KTRS Board Member, Treasurer Todd Hollenbach. "The Board wishes to thank Governor Beshear, the education groups, Treasurer Hollenbach, and the Public Pension Working Group for their significant work on formulating these recommendations," said Gary Harbin, executive secretary of KTRS.

Included among the recommendations was one to expand the membership on the investment committee. "The Board, staff, and our outside consultants have been working very hard to implement the recommended changes to the membership on the investment committee. I am very pleased to report that the recommended changes are complete," said Harbin.

Ennis Knupp, the Board's investment consultant, has assisted with implementing the membership changes on the investment committee and with making other "best practices" changes to the investment program. Ennis Knupp also consulted on searching for the two additional experts to serve on the investment committee. After completing a nearly six month process, the Board recently appointed Bevis Longstreth and George Philip to the KTRS investment committee effective July 1, 2009.

Mr. Longstreth currently serves on the Board of Directors of the global investment firm Grantham, Mayo & Van Otterloo, LLC, where he serves as Chairman of the Risk Committee. He is also

currently the Chairman of the Finance Committee of the Rockefeller Family Fund, where he is responsible for investment strategy, manager selection and monitoring. He served as a Commissioner of the Securities and Exchange Commission and on the Board of Governors of the American Stock Exchange. He has previously served on numerous boards and investment committees including: the College Retirement Equities Fund ("CREF" of TIAA-CREF); AMVESCO (INVESCO); the Pension Finance Committee of The World Bank; and Chairman of the Investment Committee of the Nathan Cummings Foundation. Mr. Longstreth has written numerous articles and three books on business-related subjects and is the author of *Modern Investment Management* and the *Prudent Man Rule*, published by Oxford University Press.

Mr. Philip currently serves as the President of the University of New York at Albany. He also currently acts as an Investment Advisor to New York State Teachers' Retirement System (NYSTRS), which is one of the ten largest public pension funds in the United States. Mr. Philip has service on numerous boards and investment committees such as: the New York Stock Exchange, Advisory Committee; Chair of the Council of Institutional Investors; Director of US Airways Group; Director of First Niagara Financial Group (\$15B Bank Group); and Director of the Real Estate Investment Standards Board. Mr. Philip also worked at the NYSTRS from 1971 to 2007. During his tenure at NYSTRS, he served as the Chief Real Estate Investment Officer (1988 to 1992), Chief Investment Officer (1992 to 2007), and Executive Director (1995 to 2007). Mr. Philip was instrumental in diversification of the NYSTRS's portfolio to include real estate and other alternative investments.

Harbin said "These two experts will add significant value to the investment program because of their extensive backgrounds in finance, risk management, governance, and alternative investments. The Board is certainly looking forward to working with these two nationally recognized and highly respected individuals."

## All Retirees

### IRS Modifies Withholding Table for Second Time—will Impact July Benefit Checks

In March 2009, the Internal Revenue Service (IRS) established new federal tax withholding tables (“March tables”) designed to accelerate the benefit of the “Making Work Pay” tax credit passed under the American Recovery and Reinvestment Act of 2009. In accordance with IRS requirements, KTRS had to implement these new withholding tables effective with the April 2009 benefit payments.

Unfortunately, most retirees would not qualify for the “Making Work Pay” tax credit. This meant the new withholding tables would lead to under-withholding of federal tax – and possible associated penalties – for many KTRS retirees and other benefit recipients. Accordingly, KTRS alerted retirees about the new withholding requirements, and many made adjustments to their withholding amounts to avoid under-withholding in 2009.

Following the release of the March tables, pension plans and national organizations petitioned the IRS to correct this problem before retirees were penalized. In response to these concerns, the IRS issued modified withholding tables (“modified tables”) to be implemented starting with the July, 2009 benefit payments. This means that the withholding amounts will increase for many retirees with a corresponding decrease in the net benefit amount. The IRS now believes that, without this change, many retirees would unexpectedly owe taxes when they file their 2009 tax returns - and could face interest and penalties.

Retirees who have changed the amount of withholding because of the March tables may now be in the position of having too much tax withheld from their benefit payments. KTRS has contacted these retirees to further explain this situation and offer special assistance to properly adjust the federal tax withheld.

The confusion created by this change by the IRS is unfortunate, but we hope retirees will take the opportunity to review their tax situation with their tax advisors so that individual circumstances may be addressed. For example, retirees who have returned to work, or are receiving a Social Security Benefit, or have more than one source of pension income should discuss those particular circumstances with their tax advisor. Though KTRS cannot offer individual tax advice, a hotline is available for retirees who have general questions or need special assistance regarding filing Form W-4P. The hotline number is (800) 618-1687 and the Form W-4P is available on the KTRS website at [www.ktrs.ky.gov](http://www.ktrs.ky.gov).

### Reminder to Re-employed Retirees

If you are re-employed by an agency that participates in the KEHP and you are eligible for health insurance, you will be required to waive coverage with KTRS. In some instances, other employers may offer health insurance that is as good as or better than that offered by KTRS. In those cases, it will be necessary to obtain your insurance coverage through your employer rather than KTRS. Please contact KTRS if you have any questions.

#### WHCRA ANNUAL NOTICE

Do you know that your medical plan, as required by the Women's Health and Cancer Rights Act of 1998, provides benefits for mastectomy-related services including all stages of reconstruction and surgery to achieve symmetry between the breasts, prostheses, and complications resulting from a mastectomy, including lymphedema?  
Call your Plan Administrator at  
**1-866-396-8810** for more information.



## All Retirees

### Minimum Distribution Requirements

Regardless of whether you are vested with at least five (5) years of service or not, if you are no longer working for a participating KTRS employer, federal tax law requires you to take action soon after you reach age 70½ to withdraw the contributions that have been deposited in your retirement account. If you are vested with at least five (5) years of service, you are required to withdraw your contributions by filing a retirement application to start receiving your retirement allowance. If you are not vested with at least five (5) years of service, you are required to file an application for a refund of your account. Failure to take action to timely withdraw the contributions that have been deposited in your retirement account may result in federal tax penalties.

If you are age 70 ½ or older and no longer contributing to the retirement system, please contact KTRS immediately for the appropriate forms to apply for retirement or a refund to avoid substantial and recurring federal tax penalties. Federal tax law also requires the beneficiary of an active or retired member to begin receiving benefits or take a refund soon after the member's death.

Beneficiaries should contact the retirement office soon after the member's death to begin receiving benefits or take a refund in order to avoid any applicable penalties.

### Members Should Designate a Beneficiary for their KTRS Account

All active and retired members should designate a beneficiary for their KTRS account. Active members need to file beneficiary designations for both the receipt of the KTRS life insurance benefit and for receipt of their account balance. Retired members need to file a beneficiary designation for the KTRS life insurance benefit. Failure to designate a beneficiary can result in much unnecessary difficulty and expense for a member's survivors, including the need to go through the expense of probate and the appointment of an administrator or executor even in those cases where these costs and procedures could otherwise have been avoided. For active members, failure to designate a spouse as beneficiary can result in the loss of valuable spousal survivor benefits. Designation of a beneficiary is by far the best way for you to ensure that your wishes for the distribution of these valuable assets is properly carried out. Please contact the retirement system if you need a beneficiary designation form.

### KTRS Retiree Analysis

As of December 31, 2008, KTRS had 3,784 service retirees that were at least 80 years old and more than 40 over 100 years old! The KTRS Defined Benefit Group Retirement Plan provides retirement security that lasts a lifetime.

Retiree AGE	
Age 100 years old or more	41
Age 95-99 years old	273
Age 90-94 years old	704
Age 80-89 years old	3,784
<b>TOTAL RETIREES</b>	<b>4,802</b>

## Retirees Under Age 65

### Kentucky Employees Health Plan (KEHP) Under Age 65 Insurance

---

KTRS is reviewing the possibility of Web Enrollment for its retirees during this Open Enrollment to be held later in the fall. Stay tuned for additional details.

## Retirees Age 65 & Over

### Medicare Eligible Health Plan (MEHP) Open Enrollment November 15 – December 31, 2009

---

This is to inform retirees and spouses, who are age 65 or older and **not already enrolled** in the KTRS Medicare Eligible Health Plan (MEHP) administered by Humana and Medco, that November 15, 2009 begins Open Enrollment. If you are not currently enrolled in the MEHP and wish to have coverage effective January 1, 2010, you may download an MEHP application at [www.ktrs.ky.gov](http://www.ktrs.ky.gov) or you may contact KTRS for an enrollment form and return the completed form to this office by December 31, 2009. Also, you must be enrolled in Part B of Medicare and provide a copy of your Medicare card verifying Part B enrollment. During Open Enrollment you can enroll in the MEHP without providing proof of a qualifying event. To enroll outside of Open Enrollment you must show evidence of a qualifying event. The 2010 premium rates are not available at this time.

**NOTE:** If you are currently enrolled in the KTRS MEHP, no action is needed.

